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## EXECUTIVE BRIEF

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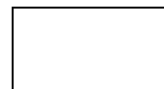
### **Soviet Economic Assistance to Cuba: New Estimates for 1986-90 and the Outlook**

- Based on detailed trade data recently released by Moscow, the Intelligence Community has retroactively revised downward the dollar value of Soviet economic aid to Cuba by about 25 percent to an average of approximately \$3.5 billion annually during 1986-90.
- Soviet economic assistance is declining substantially in 1991; the economic and political turmoil in Moscow is making it impossible for the Soviets to honor its aid commitment and shipments of key goods are falling well short of promised levels.
- We believe that Soviet economic assistance will dry up completely next year, although some trade on a strictly commercial or barter basis will continue.
- The drop in Soviet assistance will cause a decline in the Cuban economy of at least 15 percent this year; a cutoff of aid next year will reduce economic activity to about two-thirds of its pre-1990 level.
- Castro is unlikely to adopt meaningful economic reforms and Cuba's living standards will worsen significantly, increasing the prospect for regime threatening political instability in the near term.

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*This Executive Brief was requested by Assistant Secretary of State for Inter-American Affairs Bernard Aronson. It presents the findings of Intelligence Community representatives at a meeting held 4 September 1991. It was produced by the National Intelligence Officer for Latin America and the National Intelligence Officer for Economics with the assistance of the National Intelligence Officer for USSR and coordinated with representatives of State/INR, DLA, NSA, CIA, and the Services. The new costing methodology was developed by CIA's Office of Soviet Analysis.*

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Based on more detailed trade data recently released by the Soviets for the 1986-90 period, the Intelligence Community has retroactively revised downward its estimate of the dollar value of Soviet economic assistance by about 25 percent. Our new estimates indicate that economic assistance to Cuba averaged approximately \$3.5 billion annually during the five-year period.

Our new estimate does not imply any reevaluation of the importance of Soviet support for the Cuban economy. In gauging the critical role of Soviet aid to Cuba, the Intelligence Community focuses on the quantities of key commodities exchanged rather than the value of such goods because in the past value estimates have been dependent on distorted currency exchange rates. Soviet exports of these key goods--oil, wheat and flour, and machinery--to Cuba was relatively constant during 1986-90, although oil deliveries probably dropped somewhat in 1990.

#### The New Costing Methodology

We calculate Soviet aid as the difference between the world market value of goods exported to Cuba and the market value of Cuban goods imported by the Soviet Union. In the past we have been able to apply world market prices to Soviet oil and wheat exports and to Cuban sugar and nickel exports--about two-thirds of total trade--but a lack of data on the other one-third of trade forced us to derive dollar values for these goods by converting Soviet ruble data at the official ruble/dollar exchange rate. New data now enable us to assign world market values to the remaining commodities, either by directly applying known world market prices or by estimating them (shadow prices).

The new methodology is better because we no longer have to convert questionable Soviet ruble data to dollars at an overvalued official exchange rate. Criticism of our previous estimates often focused on the exchange rate problem:

Sergo Mikoyan, former editor of the leading Soviet journal on Latin America, has argued, for example, that our aid estimates were overstated for this reason. Our new methodology eliminates this problem, although because Soviet intermediate and manufactured exports to Cuba probably are lower quality than comparable goods trading on the world market, our estimated aid numbers could still overvalue some Soviet exports.

#### Soviet Aid Falling Dramatically

Ironically, the development of the new methodology coincides with the onset of precipitous declines in Soviet economic assistance. The 1991 Soviet-Cuban trade agreement--a one-year pact negotiated late last year--sharply reduced Moscow's export commitments. The Soviet's own mounting economic problems are making it impossible for Moscow to honor even its scaled back aid program.

- o Oil shipments, for example, will probably be no more than 8 million tons this year, representing a dramatic drop from the approximately 13 million tons delivered annually from 1986 to 1990 and well short of the 10 million tons promised.
- o The number of merchants ships departing Soviet Black Sea ports with non-oil exports for Cuba has dropped 65 percent.
- o Various reports indicate Havana has been increasingly buying wheat on the world market, probably because the Soviets have not been able to meet agreed-upon deliveries.

We believe that Soviet economic assistance to Cuba will dry up completely next year. It is likely that the harsh economic realities in the republics will largely dictate the shape of the economic relationship that will be redefined over the coming months.

- o In the wake of the failed coup, Castro's strongest supporters in Moscow have been purged and many of the new powerwielders apparently believe that the Soviet Union paid too dear a price for propping up his regime.
- o Leaders of the republics will become even more preoccupied with internal political and economic problems; some, including Boris Yeltsin, already have indicated that they favor ending economic aid to Cuba.
- o Havana's inability to pay its debt to the Soviet Union--estimated to be high as \$25 billion--will further disincline republic leaders from continuing to subsidize Cuba.

Nonetheless, we believe Soviet trade with Cuba will continue--albeit at substantially reduced levels--because Cuba and the republics need each other's goods. Cuban trade officials have already worked out some arrangements with several republics and will be scrambling to work out new deals as the 1991 agreement lapses.

- o The republics are likely to insist on a strictly cash and carry commercial basis or on barter agreements since they, like the Cubans, are strapped for hard currency.
- o In particular, republic leaders are likely to peg the value of Cuban sugar at the world market rate--currently about nine cents per pound--rather than the 24 cents conceded in the 1991 trade agreement.

#### **Damaging Impact on Cuban Economy**

The substantial drop in Soviet economic aid and trade is having a dramatic, deleterious impact on Cuba's economy. We believe economic activity--which declined an estimated five percent in 1990--is likely to drop by at least another 15 percent this year. A total cutoff of

Soviet economic assistance would likely reduce economy activity next year to no more than two-thirds of its pre-1990 level.

The economic shocks are being felt in all sectors.

- o  many plants and factories are being shut down or are experiencing slowdowns, including the huge nickel processing plant at Moa and the major steel plant in Havana.
- o Despite Castro's highly touted food production program, planned increases in production of pork, chicken, eggs, and milk have not materialized and Havana is not producing enough to cover the decrease in imports of these traditional staples of the Cuban diet.
- o Even Cuban sugar production is likely to steadily decline if Havana is forced to trade at world market prices; many of Cuba's inefficient sugar mills could not operate profitably at market prices. Output is declining for other reasons as well. This year 7.6 million tons were harvested, but next year's sugar crop will probably fall to about 7.2 million tons.

#### **Castro's Limited Options**

Castro is unlikely to adopt meaningful economic reforms to cope with the crisis. He has been preparing the country over the last few years for sharply reduced Soviet aid, initially through the draconian "Special Period in Peacetime" and now the even more severe "Zero Option." In the short term the latter plan calls for:

- o Further reductions of imports and even more stringent austerity measures at home.
- o Increasing use of "agricultural brigades" to absorb unemployed industrial workers and increase food production.

- o Promoting tourism to garner hard currency.

### **Implications of the "Zero Option"**

Cuba's sharply declining living standards will worsen significantly without Soviet economic aid. Non-sugar agricultural output in particular is likely to decline under the Zero Option plan as cost-cutting measures take their toll on important inputs such as feed, fertilizers, and farm machinery.

Nonetheless, the Intelligence Community believes that Castro can fill Cuba's basic nutritional requirements in the short term. With annual exports worth approximately \$3 billion, the regime should have sufficient hard currency to maintain imports of foodstuffs near traditional levels (about \$500-700 million).

We believe that the deterioration of the Cuban economy and quality of life under the Zero Option plan will further undermine the legitimacy of the Castro regime at home and abroad, and that the expected cutoff of Soviet aid will substantially increase the prospects for regime threatening political instability.

### **Textbox: Declining Soviet Military Assistance**

Soviet military deliveries dropped by more than 50 percent during the first half of this year, and the number Soviet military advisors has been cut in half to around 1,200. Although we can't say exactly when, we believe the Soviet center will begin removing the Soviet brigade, both for cost saving reasons and as a gesture to the United States. The SIGINT site at Loudres might also be closed, but more likely it will be maintained until the new center's military policies are more clearly defined. The Intelligence Community believes that Castro, anticipating the withdrawal of the Soviet military presence and the end to both economic and military aid, could move preemptively by demanding a Soviet withdrawal from the island.